ommon Sense Budget Reform for Missouri

A Report Issued by a
lue Ribbon Panel of Private-sector
Experts Convened by
resentative Catherine L. Hanaway

January 21, 2002

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Catherine L. Hanaway
Minority Leader
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January 21, 2002

Dear Fellow Missourians:

Last summer, I assembled a Blue Ribbon Panel of private-sector budget and fiscal experts to analyze our state budget and recommend possible reforms to increase efficiency and save money. I am pleased to now present the panel's report, *Common Sense Budget Reform for Missouri*, which I hope will be carefully reviewed by the members of the Missouri General Assembly, the Governor and his administration, and all interested Missourians.

The report illustrates that common sense reforms can make a real difference in how government operates and spends the people's money. The panel recommends that the state reform its budgeting process and make many specific changes in how it allocates its resources. Our state will benefit if the panel's recommended reforms are implemented. If not, Missouri will continue to suffer the effects of wasteful spending and inefficient use of precious taxpayer funds. It is intended that the recommendations contained herein will not only stimulate thought but generate action.

I am deeply grateful to the members of the Blue Ribbon Panel for their sacrifice and hard work over the past few months. They have eagerly accepted this challenge, donating their time and paying their own expenses. The panel has scrutinized mountains of budget materials, crunched countless numbers, and received input from the state's top budget experts. I thank them for their efforts and commend this report to you.

Sincerely,

Catherine L. Hanaway

Catherine L. Hanaway
House Minority Leader

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INTRODUCTION

This panel was formed by Missouri House Minority Leader Catherine Hanaway in an effort to analyze state government and propose possible reforms to make it more efficient. The panel was given complete independence to make its own findings and reach its own conclusions and has completed its initial review of the Missouri state budget and issues this report. During its budgetary investigation, the panel was privileged to meet with and receive input from various government leaders and budget experts, including the state budget director and his staff, the chairman and members of the House Budget Committee, the governor's cabinet director, House and Senate appropriations staff, and many state department managers. The panel wishes to thank these individuals and the agencies they represent for their generous time and support.

For the last several months, even before the September 11 events, the word from Jefferson City was that the State of Missouri was anticipating a significant revenue shortfall. Our present budget crisis is really not a revenue problem, but rather a spending (or at least an appropriation) problem. Through at least December 2001, state revenue collections continued to increase over the previous year. However, the FY 2002 state budget proposes to spend $2 billion more than was spent in FY 2001. This represents a 12.4% increase in appropriations. This has raised several issues that are worthy of consideration.

The problem starts with faulty economic projections. The process of preparing projections is <u>not</u> an exact science. However, it is hard to comprehend how the economists could have possibly used any credible economic model to show such a significant increase for 2002. The way the state budgets its money also raises some issues that need to be addressed. Opportunities for improvement begin with projections, but expand to how departments present budget requests and how the budget is approved. Furthermore, the state uses a "core" concept, which begins with the proposition that a department gets at least the same amount of the money it received last year. There is limited investigation of whether a particular program is still needed or whether the program could be done less expensively. The "core" concept of budgeting also leaves very little opportunity for adjusting the budget during the legislative process. In fact, the legislators who testified before the panel indicated that they have the ability to adjust just one or two percent of the budget, at the most. This leaves very little opportunity to control spending. Some serious consideration of these issues needs to be made. The panel also examined some the specific budget items to see if there are some opportunities for savings.

Our panel has prepared the following report in three parts. The first part focuses on the budgeting process and deals with proposed changes in how the budget is approved. The second part focuses on specific budget items or opportunities, which can and should be addressed. The third part is a review of two agency inventories and recommends how these agencies can save money by being more prudent in spending state resources. Only two agencies were reviewed because of time constraints.

Our review has certain limitations. The panel was only assembled in late summer and asked to provide a report by the end of the year. To accomplish this task, it was necessary to review volumes of materials. Based upon that review and testimony from state officials, this report is being offered. However, the budgeting process is so monumental that substantially more time and analysis would be required to provide a more extensive report. This report is intended as a starting point to stimulate debate and further investigation of the opportunities that may exist to improve the budget process. This report does not attempt to answer all the budget questions that exist.

EXECUTIVE SUMMARY OF BUDGET RECOMMENDATIONS

In this report, the panel makes numerous recommendations for state budgeting reform, including broad-based reforms and specific items in agency budgets that should be scrutinized. In order to achieve real budget reform in Missouri, however, at least the following three reforms must be implemented in Missouri:

1. **The revenue estimate used to develop the state's operating budget should be the lesser of either: a) the prior year's spending plus or minus an agreed upon economic index such as the Consumer Price Index plus voter-approved spending; or b) the consensus revenue estimate as currently calculated. Any excess revenue generated could be set aside for budget stabilization, long-range planning, and strategic investment.**
2. **The state should increase budgeting accountability by strengthening legislative oversight, including program evaluations, utilizing state auditor's reports in the budget process, and by giving consideration to some sunset provisions for state agencies.**
3. **The state should eliminate the concept of "core" in budgeting and prepare budgets based upon agencies' priorities, rated highest to lowest.**

Other reforms the panel recommends include:

- Missouri should develop a budget system like that of Georgia, where budget-makers utilize elements of performance-based and zero-based budgeting and the legislature has more resources at its disposal to monitor state agencies and their budgets;
- implement a five-year capital budget;
- cease spending all of projected revenues and creating a budget reserve fund to save for future shortfalls;
- incorporate features of the Texas budgeting system into legislative oversight, where most agencies and programs are given sunset dates in order to eliminate waste and encourage efficiency;
- utilize cost-benefit and sensitivity analysis as well as risk assessment in appropriating funds;
- rely more on independent audits and reviews in order to gauge improvement or regression;
- give greater attention to changing state demographics when planning program budgets;
- pay tax refunds promptly to minimize excessive interests payments;
- take advantage of the benefits of leasing vs. buying property such as vehicles and develop an as-needed vehicle leasing system for state agencies;
- consider whether to allow unclaimed property owners to voluntarily forfeit their property;
- review the state's economic development tax credit programs to consider which credits to emphasize while capping others and making all credits transferable and/or refundable;
- review programs with dedicated sales taxes and discourage the use of such sales taxes;
- preserve the Federal Reimbursement Allowance, Missouri's third largest source of general revenue, to preserve Medicare and Medicaid funds and protect funding for nursing homes and hospitals;
- improve the way state employees receive cellular telephone service at state expense;
- reduce travel and meal expenses for state employees to 50 percent of prior year costs; and
- review state department spending and inventory to look for ways to save money.

Other specific recommendations regarding two agency budgets are detailed in Part III of this report.

PART ONE: BUDGET PROCESS REFORM IN MISSOURI

I. Budgeting For Increased Accountability & Efficiency

A. The Problem: Counting Your Chickens Before They Hatch

The budget crisis that the State of Missouri is presently facing is not the result of the state taking in less money than it took in last year. Preparing a budget based upon bloated revenue projections and then appropriating 100 percent of projected revenues have created the crisis. This problem could be solved by not making such aggressive revenue projections. Thus, the concept of "Don't Count Your Chickens Before They Hatch."

Regular people have to live their lives this way right now. For the state to claim that it has a crisis right now is like a family that had a household income of $100,000 last year adopting a spending plan in anticipation of gaining an additional $12,400 in household income. When household income only increases by $5,000 instead of by the $12,400 increased level of spending, the family then says that it has a budget crisis. The family does not have a budget crisis; the family has a spending crisis.

We recommend limiting the possibility of future budget crises by limiting the projected revenue estimate for the next fiscal year. The economists should still be consulted to try to develop a projection of what they think the state revenues for the following year will be. However, revenues, other than grants from the federal government, should be limited to the prior year's revenue collections, plus the consumer price index (or some similar indexing factor) for the prior year. (If the economists have an even lower projection, this lower projection should be used.) This way, the state budget process begins with a conservative revenue estimate.

When the state generates more revenue than projected, the excess revenue could go into a "targeted budget reserve." The targeted budget reserve could then be appropriated in the following fiscal year. We would encourage that some portion of the reserve be allocated to a set-aside fund for unforeseen contingencies. If the state would later experience a decline in revenues, it would have the reserve fund available to offset this decline in bad economic times and not be forced to cut government services. We would also encourage the use of the targeted budget reserve for nonrecurring items. The objective would be to spend the excess money for capital budget items or items that would not have to be repeated in future budgets. These could be for construction of new infrastructure, such as buildings or roads, the purchase of new equipment, economic incentives, promotion of economic development, specific one-time government programs, or other similar items. The nonrecurring uses are encouraged so that the state budget does not grow each year with items that will have to be repeated in all future budgets.

The use of a targeted budget reserve is very similar to how real people budget their money. Try the example of the family of $100,000 of income who thinks they may have $12,400 more of revenue in the next year. However, that family does not increase their family spending by $12,400, but increases it by a more conservative $3,000. When the excess of $9,400 materializes in the budget for the next year, the family has that money to spend in the following year for a

special item. The family may want to acquire a new car, for example, or buy a big screen television, or build an addition on their home. Perhaps the family desires to place the excess revenue in a savings account, knowing that someday the washer and dryer may break down, the house may need a new roof, or college tuition will have to be paid. Regardless of where the family allocates the money, the family is only spending what it has. The family is not spending the money before it receives it, i.e., "not counting its chickens before they hatch." Government should operate the same way.

B. The Need

- The Missouri budget has grown at nearly double the rate of federal spending and triple the rate of inflation over the last 9 years – an average ***increase*** of $896 million ***each year*** from fiscal year 1992 to fiscal year 2000.
- Accountability of fiscal affairs of the state should be improved. Lawmakers tend to focus on new programs and budget requests and almost never examine the core budget of the agencies, partially because of the design of the budget process and documents furnished to legislators.
- Private sector and local governments control the growth of expenditures in periods of reduced revenue growth. The State of Missouri needs to operate in a similar manner and operate within appropriate and responsible budget limitations.
- Do budget priorities reflect the will of voters and the legislature? For example, the commitment of General Revenue Fund resources to transportation from fiscal year 1992 through fiscal year 2000 has increased by only $14 million while the state's overall transportation expenditures grew by nearly $642 million during the same period; yet transportation improvements are commonly emphasized by the public and local governments as one of the state's top needs.
- Missouri state government is currently facing either a tax increase for general spending purposes or a limit on the growth of government. Any tax increase over $70 million must be submitted to voters. A tax increase for general spending would definitely impact the state's ability to raise taxes for special needs such as transportation.

C. Budget Methods

There are four main methods of budget review that are used by the states and the federal government:

- Traditional or Incremental – Core is nearly automatic and the focus is on new programs (most states use this method);
- Performance – Focuses on objectives and measurements of performance in reaching set goals (show-me results are examples of a performance-based approach);
- Detail-based – Agency is required to justify new programs but is allowed flexibility to move core money around within the agency and shift resources to become more efficient (Missouri's Department of Revenue has been using this approach for several years);
- Zero-based or modified zero-based – Previous funding levels are disregarded, and every item within every agency is reviewed to determine its value and efficiency. All of the agencies' core budgets are subject to review.

Traditional or incremental budgeting is used to prepare the vast majority of the Missouri budget, with less emphasis on core budget and more emphasis on additional spending requests. Show-me results are shown in the budget books and measurements are provided for each of the results or objectives. Also, detail-based budget review has been employed in the Department of Revenue's budget process for several years, allowing the department to move funds within the agency as needed to become more efficient. Zero-based budgeting, however, has not been employed in Missouri's budget process.

D. Spending 100% of Projected Revenues and a Targeted Budget Reserve

During the 1990s, there was tremendous growth in state revenues. As this growth occurred, the money was spent. Very little was put aside for a time when revenues might be growing more slowly or even shrink. Most financial advisors encourage people to have a three- to six-month cash reserve. This way, if a person is laid off from their job, they have resources they can draw upon while they find another job. Also, if a person has some unfortunate incident ranging from something as small as a washing machine breaking down to something as great as a tragic accident that causes them to incur extensive medical bills, there is some reserve to draw upon. Government should operate the same way.

State government should set aside some resources to have available during economic slow downs or when some unfortunate incident occurs (three to six months reserve may be too much for government, but some reserve needs to exist). For example, the floods in 1993 were tragic events that seriously disrupted the state's economy and created several citizen and infrastructure repair needs. By accumulating some resources in the good times, the state will be better able to weather economic difficulties and emergencies.

One important concept is the use of current-year figures as a foundation for projecting the budget for the next year. We strongly encourage this type of analysis. The concept is the opportunity to create a targeted budget reserve. The economists should be encouraged to make only a modest, if any, increase in the current year projected revenue. Any excess revenue above and beyond the projections could then be put to use in a combination of two ways. First, a portion could be set-aside in a reserve fund. The purpose of the reserve would provide a "cushion" for downtimes. The reserve would also be important when unusual crises arrive. Having an additional reserve could be used to meet an emergency caused by such a catastrophic event as a major flood. The reserve might also be helpful in meeting unsuspected shortfalls that might be experienced due to a particular economic downturn or emergency.

The second primary purpose of the targeted budget reserve is to be used for capital items. The purpose to emphasize using the budget reserve for capital items is that they would be nonrecurring items. The intention is to take the excess revenue from good times and use that revenue for enduring long-term expenses, but not expenses that are annually recurring.

E. Re-examining the "Core" Concept

The state's budgeting process operates on a model that begins with a "core" budget. This core budget is, essentially, whatever a department received last year. (That is a slight over

simplification, but not a significant over simplification.) The only material adjustments that are made by the General Assembly are adjustments to the increase in the core. This leaves very little room for the General Assembly to effectively examine budgets. With the help of the professional staff of a General Assembly Budget Review Office (explained below), the core budgets could be carefully examined. Each department head who prepares a budget should be asked to prepare their budget with priority rankings of all budget items. Items should be prioritized from highest to lowest. This way the spending in each department could be analyzed by the professionals in the General Assembly Budget Review Office with the understanding of the department's priorities. A more thorough examination of each budget should be made annually or at least biannually.

In trying to re-examine the core, it may be appropriate to consider other techniques. For example, some states have a system where a department is entitled to no increase of its prior year core budget and must justify any increase in the core amount. Even these states often limit the actual permitted increase in the core to a very modest percentage. Another option may be to consider a technique used in Texas (see page 15). Texas has a sunset provision where every department and agency, with a few constitutional exceptions, is subject to a sunset provision. These agencies must then come back to the General Assembly and justify their existence or they will be "sunset" and cease to exist.

Another technique for re-examining the core is for the General Assembly Budget Review Office to pay close attention to the state auditor's recommendations. The state auditor's office has a practice of reviewing each department on a two- or three-year cycle. In making this review, recommendations for improvement are prepared. However, these recommendations are not necessarily addressed as part of the budget review process. The recommendations of the state auditor's office should be examined as part of the budgeting process. If a department does not implement a recommendation of a state audit, there should be a very strong reason for why that recommendation is not being implemented. Absent a very good reason for not following these recommendations, that agency may need to face a budget cut.

F. What is Happening Today in Georgia—the Georgia Budgeting Model

The State of Georgia implemented full zero-based budgeting under then-Governor Jimmy Carter. Over the years, the process modulated from a true zero-based process to a more traditional process that reviews only increases in the budget, according to a high ranking official in the legislature's budget office. However, the state does use a combination of performance-based and some components of zero-based budgeting in the preparation of its annual budget and, more importantly, has instituted a spending growth limit for most agencies.

According to the budget official, Georgia has taken several steps to help ensure budgetary efficiency. First, they implemented a policy where any new programs must be funded within the agency from "redirected" funds within that agency. In other words, if the governor or state agency wants to fund a new program, the agency must use funds it is already receiving through reduction of another program or by becoming more efficient. The state used this process from 1997 to 2001, and it is believed that this approach led to the extremely healthy condition of the Georgia budget. According to a report published by the National Conference of State Legislatures (NCSL) in January 2001, Georgia's budget is in excellent condition with a large

surplus of $551,277,500 at the end of fiscal year 2000. The surplus will be used to fund additional Medicaid spending, capital improvements for schools, and education reforms aimed at reducing class sizes and increasing teacher accountability while many other states are cutting their budgets. The Georgia state agencies, under this approach, were only allowed 1-2 percent of their budget as an inflationary factor that could be used for "enhancements"—anything else was redirected from elsewhere in their budget. For example, the current budget will likely contain only a state employee pay package and additional Medicaid expenditures. The amount of pay package expenditures in excess of the 1 percent enhancement would need to be redirected from other areas of each agency's budget. The state exempted education from this requirement and allowed education funding to increase at a higher rate. In the social services area, savings from welfare-to-work were used to increase spending in other areas within the agency.

Second, during the zero-based budget era, the state authorized a legislative budget staff consisting of eight analysts and four additional supervisory and clerical personnel. The charge of the budget staff is to review the core budgets of the agencies. They report to a "legislative services committee" that is similar to our general administration committees in the House and Senate. Because they work for the legislature and not the governor, they are able to find efficiencies within the agencies but without intensive effort on the part of legislators. They are also able to answer legislators' questions regarding the operation of any programs in the agencies, because they regularly review the efficiency of those programs.

Third, appropriations sub-committees are used in both the House and Senate in Georgia. This allows legislators with a particular interest to focus on appropriations for a limited number of agencies. The sub-committees report to a leadership committee (legislative leaders from that particular chamber) and the results are reported to the full appropriations committees of both the House and Senate. The structure is similar to the process used in the Missouri House appropriations process, but it is used in both chambers in Georgia and leadership is involved in the formal decision-making process.

1. An Element of the Georgia Model—Combined General Assembly Budget Revenue Office

Consideration should be given to creating a combined General Assembly Budget Review Office. Presently, both the House and the Senate have some limited staff for purposes of budget oversight. It would be anticipated that these positions would be rolled into a combined General Assembly Budget Review Office. This office would have its own staff review revenue projections and analyze the calculations. Staffing should be provided in the General Assembly to complement the governor's own budget office and the review the legislature's budgeting process. On a rotating basis, the General Assembly Budget Review Office should be asked to take a more in depth look at each department. While this process would be completed on a rotating basis, it should also be accomplished on an "as needed" basis when a specific crisis arises.

2. It Works In Georgia, But Will It Work In Missouri?

A common explanation for the rapid growth in Missouri state government spending is downward federal pressure, causing the state to spend more money on services required by the federal government. Medicaid is often cited as a reason for additional "mandatory" spending.

Georgia is an example of another state that experiences similar pressures from the federal government, including Medicaid expenditures, but the state continues to maintain a spending growth limitation.

When adjusted for population differences, the two states have similar tax burdens, Medicaid expenditures, personal income, and per capita budget dollars. A comparison of the two states on a per capita basis follows:

	Missouri	**Georgia**
Population	5,595,211	8,186,453
Per capita personal income	$27,186	$27,790
Per capita total state taxes	$ 1,649	$ 1,615
Total budget dollars per capita	$ 3,396	$ 3,176
Per capita Medicaid expenditures	$ 171	$ 177

G. Georgia's Budgetary Responsibility Oversight Committee's (BROC) Legislative Oversight Process In More Detail

<u>The following information was obtained from the State of Georgia's web-site (through page 13)</u>:

- Through the ***Budget Accountability and Planning Act of 1993***, the governor and legislature expressed mutual intent to improve the effectiveness and efficiency of state endeavors by calling for strategic planning and measurement of results.

- "Results-Based Program Evaluations" measure program success and provide insight for legislative decision-making and agency improvements.

- To concentrate the committee's efforts, BROC selects a theme for the calendar year and hears evaluations of programs united by the particular year's theme.

- The Governor's Office of Planning & Budget and the Georgia Department of Audits notify agencies about proposed evaluations and issue a ***General Evaluation Plan*** in advance of each evaluation.

- Program evaluations require significant amounts of resources from agencies to comply with the BROC law. Agencies typically assign a primary agency contact for the evaluation team.

- Evaluators will share an exposure draft of the evaluation report with a program's parent agency for corrections of fact and omission before the final report is issued to BROC.

- Public BROC meetings provide a possible forum for presentation of final reports, but reports are typically released within a week of publication. Not all reports are necessarily presented in public BROC meetings.

- Committee members may ask questions of the agency at the meeting; therefore, agency representation is advisable. The BROC Research Office will give prior notice of the meeting to the agency head and the program contact.
- By law, agencies have 90 days after the report is released to respond to evaluations and submit their plans of action.
- The 90-day responses form the basis for follow-up evaluations to be conducted by the BROC Research Office following a reasonable interval.

The Budgetary Responsibility Oversight Committee and the BROC Process

The ***Budget Accountability and Planning Act of 1993*** established the Budgetary Responsibility Oversight Committee (BROC) of the Georgia General Assembly to help improve legislative oversight of state programs. In compliance with Section 28-5-5 of the Official Code of Georgia (Annotated) (O.C.G.A.), BROC oversees state government activities by systematically reviewing and evaluating state government programs. Such action occurs with the explicit assistance of the governor's office, in accordance with Section 45-12-178(a), O.C.G.A.

This document is intended for use as a resource for state agencies in preparing for a program evaluation and outlines appropriate strategies for responding to information requests from BROC. The head of one of our state agencies suggested that the BROC Research Office outline the BROC oversight process for the information of all state agencies and define what the mutual expectations should be for each of us to comply with the ***Budget Accountability and Planning Act of 1993*** as amended.

Results-Based Program Evaluations

Evaluations of state programs are intended to provide insight to legislators involved in the budget appropriation process **and** to agency administrators. An evaluation is properly a judgment about a program's ***merit, worth, and significance*** as indicated by its relative success and the value of that success. The approach taken in performing an evaluation may be described as falling at some point on a continuum ranging from a process evaluation (judging how well a service is delivered) at one end, to an impact evaluation (judging how well the service solves a problem) at the other. In conjunction with the executive branch's strategic planning initiative and Results-Based Budgeting, evaluations of Georgia's programs are evolving toward the second point, seeking answers about the impacts or outcomes that result from operating a particular state program or set of programs. Hence the term for our ideal: ***Results-Based Program Evaluation***.

The Program Evaluation Selection Process

Georgia law allows the chairman of BROC to maintain a list of state programs to be evaluated. BROC uses a thematic approach to aid in determining which state programs will be evaluated in a given year. Biennial major themes coincide with two-year legislative terms and will generally match some aspect of the major issues set forth in the governor's State Strategic Plan. Annual themes generally subdivide the biennial theme and will be introduced at the annual Strategic

Planning Conference in January. The biennial theme for the 1999-2000 term is "Public Well-Being." The 1999 annual theme under Public Well-Being focuses on the state's policies and programs in "Public Health and Pollution Reduction." Thus, most evaluations conducted for presentation in 1999 will examine the effectiveness of programs promoting better human health in Georgia.

The state's policy in a particular area is defined by the programs set in place to address relevant needs in that area. By choosing to focus on programs that are united by a common theme, the members of the Budgetary Responsibility Oversight Committee should gain deeper insight about the state policy that the programs operationally define.

The Evaluation Process

With the list established of programs to be evaluated, the program evaluation divisions of the Office of Planning and Budget (OPB) and the Department of Audits and Accounts (Audits) meet with the BROC Research Office to assign evaluation responsibilities. Prior to undertaking an evaluation, OPB or Audits will send a ***Letter of Notification*** to the agency head announcing the coming evaluation and will conduct fact-finding exercises into the program unit. Upon completion of that overview, evaluation professionals will make a determination as to the advisability of conducting a complete evaluation of the program.

Once BROC decides to proceed with an evaluation, OPB and Audits will issue a ***General Evaluation Plan*** to BROC outlining the focus of the evaluation, a description of the program, and the evaluation's scope and methodology. A typical evaluation format includes:

- Background information explaining the program's origin and purpose; function; target population; structural and geographical organization; staff size and composition; and work load or case load;
- Financial information relating to the program's total budget, funding sources, unit costs, and trends over time;
- Program statement of mission, goals, and objectives, and an assessment of the program's relative achievement;
- Relevant comparisons to other public and private entities regarding service levels, expenditures, staff resources, etc.;
- Findings and recommendations regarding whether the program should be continued as currently operated; continued with identified steps to correct deficiencies, or discontinued. Opportunities for privatization or consolidation with other similar programs may be described.

The Official Code of Georgia (Annotated) § 45-12-178(c) authorizes and directs agencies to provide assistance to OPB, Audits, and BROC Research Office staff performing evaluations. Typically, this will entail providing access to agency information and personnel, and may

include data collection. In order to facilitate the evaluation process, agencies usually assign a primary contact person for the evaluation team.

Evaluations require a significant investment of time on the part of an agency. Recognizing this, evaluators endeavor to minimize agency disruption while fulfilling their own obligations.

As the last phase of the evaluation, the evaluators will share an exposure draft report with program officials and consider agency comments. Once the final report is completed, it is forwarded to BROC and a public committee meeting ***may be*** set to air the report publicly.

BROC Meetings

Public meetings of the Budgetary Responsibility Oversight Committee are called by the chair at committee convenience and are held in the Capitol in Atlanta. The agenda begins with old business, consisting of updates to evaluations presented at earlier meetings. Agency 90-day responses to earlier evaluations may be reviewed, at the committee's option.

New business consists of newly completed evaluations. All completed evaluations will be on the agenda for release, but the committee may choose not to hear oral presentations for all of them. Usually, the committee will hear presentations for four to six programs in one meeting. There is no time definite for a particular program evaluation to be presented during a meeting. The meetings usually last 2 to 2½ hours.

During the BROC meeting, evaluators give oral presentations to the committee and, typically, committee members ask questions of both the evaluators and the agency. Therefore, it is highly advisable that an agency (or program) representative be present to field committee questions. In like manner, agency spokespersons for programs on the old business agenda should be present to answer any committee follow-up questions.

It is standard procedure for the BROC Research Office to notify agencies having business on the agenda about a BROC meeting as soon as it is scheduled. The BROC Research Office's practice is to telephone the office of the agency head.

Required 90-Day Response

Upon release of an evaluation report, the BROC Research Office will send a letter to the head of the subject program's owner agency to remind the agency that the law [Official Code of Georgia (Annotated) § 45-12-178(f)] requires an official response to evaluation recommendations and committee questions. Due 90 days from the release date, this required written response should:

1. Describe the agency's position on each finding and recommendation in the evaluation;

2. Outline the agency's plan of action in light of the evaluation;

3. Provide the status of any implementation action already underway.

A soundly reasoned explanation of disagreement with any finding may be part of an appropriate response. The response letter should be addressed to the chairperson of BROC in care of the BROC Research Office. Additional copies should be sent to OPB and Audits.

The BROC Follow-Up Process

The agency's 90-day response/plan-of-action becomes the basis for the next oversight activity: the follow-up evaluation. At a reasonable interval (perhaps 18 months) following the release of the final report, either the BROC Research Office or the office that conducted the original evaluation (Audits or OPB) will schedule the follow-up. The follow-up evaluation will have several components, including:

- Review of the agency's 90-day plan of action;
- Review of the department's efforts toward program improvement since the issuance of the original evaluation report;
- If necessary, consultation with agency officials to establish appropriate and sustainable outcome measures and accountability standards for continuous self-evaluation;
- Presentation of follow-up evaluation results to BROC.

Essentially, we seek to discover if agencies have achieved improved results following the original evaluation. Were the recommendations made in the evaluation implemented? Were other steps taken instead or in conjunction with the recommendations? Did these steps have the intended consequences? Were there unintended consequences? Are procedures in place for the program to continuously monitor its program activities and impacts by collecting and analyzing performance data? Ultimately, is state government being improved by the existence and continued funding of the program?

Evaluations are unavoidably disruptive of agency and program operational routine. However, professional evaluators are sensitive to the agency's primary responsibility and endeavors to be as accommodating as possible while conducting evaluations.

The BROC Process is intended to improve state government, not just criticize those conscientiously trying to operate its units. If there remain any questions about the Budgetary Responsibility Oversight Committee and its oversight process, please call the BROC Research Office at (404) 657-4600 or write to them at: BROC Research Office, 206 Legislative Office Building, 18 Capitol Square, Atlanta, GA 30334.

H. Five-year Capital Budget

Missouri needs to develop a five-year capital budget. This process has two steps. First, it would be necessary to segregate every department's capital items from operating items. This way, budgets of different entities are addressed by separating capital items from operating items. The operating commitment needs to always be made with careful consideration. Increasing the number of employees by making commitments to new programs needs to be made with the full

understanding that it will not likely be a one-time commitment but rather an ongoing commitment that extends many years into the future. Separated from these operating components would be the capital components of the various administrative budgets. This way, certain items could be addressed in a lump rather than every time an individual item arises. This would be a much more appropriate technique. There is a concern that in tight budget years, capital items might be postponed pending better economic times. This already occurs, however.

Once the capital items are segregated, a five-year capital budget should be developed. This should address the timing of the need for resources and the timing required in order to achieve the matching contributions from the grants from the federal government and other opportunities to better utilize resources. By having a five-year commitment to a capital budget, there is also the opportunity to complete projects in phases.

Five-year capital budgeting does create a very important commitment by those involved in the budgeting process to see that projects are only begun that can be completed. However, it may be possible to plan projects in phases so that a modest amount of money is spent in the first year for feasibility studies or other design work, with more expensive costs being allocated in future years. This creates the opportunity to keep more projects in process without tying up the state's resources, which may not be needed for several years into the future.

I. Strengthening Legislative Oversight

The General Assembly needs to be more involved in the budget review process. Several budget review committees already exist in the House and Senate. We recommend that a combined General Assembly Budget Oversight Committee be created with a combination of staffing. This staff would be filled with qualified professionals who could pursue a more detailed review of department budgets. We were shown a stack of the budget requests for one fiscal year, which were several feet high. It would be extremely difficult for a legislator to review all of this information. A combined General Assembly Budget Review Office with professional staffing could monitor departmental budget requests. These professionals would assist the General Assembly in analyzing the various budgets.

The General Assembly's Joint Committee on Legislative Research has an Oversight Division, which has two primary duties—the preparation of fiscal notes on all bills before the General Assembly and performance of management and program evaluations. The Missouri state web page for this Division states: "To meet the demands for more responsive and cost effective state government, legislators desire to obtain information regarding the status of state programs they create and expenditure of funds they have authorized." This division investigates and assesses state agency performance and reports their findings to the Joint Committee. The Oversight Division should be better utilized to identify and implement cost savings.

1. Observations

- Since 1986, the Division has prepared 60 reports, in the most recent years: 7 in 1998, 1 in 1999, 10 in 2000 and only 2 in 2001, although we were told that there are several in process.
- Our review of sample reports indicated that they were very complete, well-done and addressed appropriate issues.

- There is no required response by the programs that are reviewed and no required follow up by the Oversight Division. We understand that the Division used to perform follow-up evaluations on the reports but discontinued them several years ago due to their ineffectiveness.
- We were not able to quantify the savings generated from the program evaluations because of the lack of formal follow-up.
- The Division has limited time for preparation of the evaluations because of its joint responsibility for preparing fiscal notes. There are 13 staff members assigned to the evaluations for only 6 months out of the year.
- The Director is appointed for an unlimited term and is subject to the political pressures of reporting to the Joint Committee.

2. The Texas Model

- Texas has a sunset process that regularly assesses the need for continuation of state agencies. Legislative oversight is concerned with compliance with legislative policies, while sunset asks more basic questions – "Do the agency functions continue to be needed?"
- A date is set on which an agency will be abolished unless there is legislation passed to continue its functions.
- There is a 10-member body appointed by the Lieutenant Governor and the Speaker of the House of Representatives. The Commission has a staff that performs the evaluations and prepares reports.
- Most of the state agencies undergo review every 12 years. There are certain agencies, such as universities and courts, which are not subject to the Sunset Act. There are some constitutionally created agencies, such as the Board of Pardons and Paroles, which are subject to sunset review but not abolishment.
- The process is extensive and seems to have strength. It includes a timetable, staff review and reporting, agency response, commission hearing and recommendations to the legislature including a draft of legislation. Depending on the legislative outcome, the agency is either abolished and begins a one-year wind down process or continues with legislative modifications.
- The sunset staff uses specific criteria that were developed by the legislature to evaluate each of the programs and functions of the state agency under review.
- The Texas Guide to the Texas Sunset Process, October 2001, states that: "The Sunset process has streamlined and changed state government. Since Sunset's inception in 1978, 44 agencies have been abolished and another 11 agencies have been consolidated." Reviews indicate potential 19-year savings of $719.9 million from reviews conducted between 1982 and 2001. "Based on these estimates, every dollar spent on the Sunset process earns the State $42.50 in return."

3. Recommendations

- The legislature should be required to present a minimum number of programs to be evaluated by the Oversight Division each year.
- The Oversight Division staff should be increased to accommodate more reviews.

- The reviewed programs should be required to prepare written response to the Division, which should review the responses with the program personnel and work out differences.
- Both the Oversight Division and the reviewed programs should be required to present oral and written reports to the Joint Committee on Legislative Research, which should be required to present their conclusions to the General Assembly.
- The Oversight Division should be required to review compliance to Joint Committee recommendations or legislation and report findings to the Joint Committee. Programs found to be not in compliance should be required to present their reasons for lack of progress to the Joint Committee, which should be given the responsibility to enforce compliance.
- Methods should be employed to reduce the political pressures on the Oversight Division Director. Possible measures could include a term limit on the office coupled with an employment contract for the term.
- Missouri voters should be given the opportunity to vote on sunset laws on state agencies similar to the laws passed in Texas. This would have more impact on cost savings than any of the other above recommendations.

J. Biennial Budgeting

One concept we considered was pursuing a bi-annual budget. Since two years are spent on the budgeting process, a more detailed analysis can made of the budget. The panel has rejected this concept. In order to preserve the general concept of checks and balances between the governor and the General Assembly, this gives even more power to the governor. The General Assembly is already adopting a budget several months in advance of the beginning of the new fiscal year. After the General Assembly recesses in May, it does not come back into session until the state is already six months into the current budget cycle. This leaves the General Assembly substantially outside the budget review process. By extending the budget process to a two-year cycle, this may actually give less "checking power" to the General Assembly and actually give more power to the governor. The absence of this "checking power" may or may not be considered a good thing, depending upon your perspective.

Also related to shifting to a two-year budget cycle, the economists are already having difficulty looking into their crystal balls and projecting revenue into the future. In order to begin the budget process in the General Assembly in January, it is necessary that targeted revenue numbers be developed before the last quarter of the calendar year. Projections made in the last quarter of the calendar year are actually being made in the second quarter of the state's current fiscal year. This means the revenue projections are being made more than two quarters in advance for the four succeeding quarters. The economists are therefore being asked to look eighteen months into the future. By going to a two-year budget cycle, the state would be forcing the economists to look nearly thirty months into the future. This makes the burden of projections even more difficult.

One might argue that the further out you extend the projection period the more likely the economists will be able to make their projections based upon the ability for circumstances to correct any short-term swings. However, the budgeting crisis seems to be created more by the short-term swings than it is created by the long-term growth factors. This is evident from the fact that there was a long period of sustained growth in state revenues from 1993 through 2000. This growth in state revenue, however, did not create any previous experience of saving funds

for the future.

II. Improving Allocation of Limited Resources

A. Cost-Benefit Analysis

Unlike other organizations, government has the capability to increase its own resources by imposing higher taxes. There is a natural tendency within government, therefore, to seek to increase its resources when needs are re-prioritized or new needs discovered. If state government makes itself as efficient as possible, it will need to ask for less. It should view itself as having very limited resources to foster maximum efficiency.

As with any organization that faces competing demands for a limited resource pool, Missouri state government needs to use appropriate tools and measures to determine the best use of the limited resources it has. One tool that can be employed to prioritize competing programs is cost-benefit analysis. Profit-oriented companies have many financial related outputs (e.g. revenue, profit) against which to compare inputs such as cost. In similar fashion, Missouri state government also has inputs and outputs. While inputs are usually financial in nature, seldom are the outputs measurable in monetary terms. In order to evaluate, compare, and rank programs lacking monetary outputs by greatest benefit, and thus what programs are implemented, it is very important to develop a set of measures or metrics which can be used to bring some level of objectivity to the evaluation process. One example of a non-monetary metric, which is commonly used in private industry, is alignment. In evaluating a proposal the decision maker looks at how well it is aligned with the mission and objectives of that organization. The proposal may be financially sound, yet it isn't in alignment with the company's stated goals and is therefore rejected.

As part of the budgeting process, the legislature should always consider whether proposals are in alignment with the mission of state government. Other examples of possible metrics that could be used are cost per unit of service, cost per beneficiary or number of people served. To that end, the panel recommends the legislature investigate and identify metrics which can be used in the state budget decision making process so as to aid legislators in evaluating the costs and benefits of proposed programs so that the limited resources of state government may be allocated to obtain the maximum benefit for its citizens.

B. Sensitivity Analysis and Risk Assessment

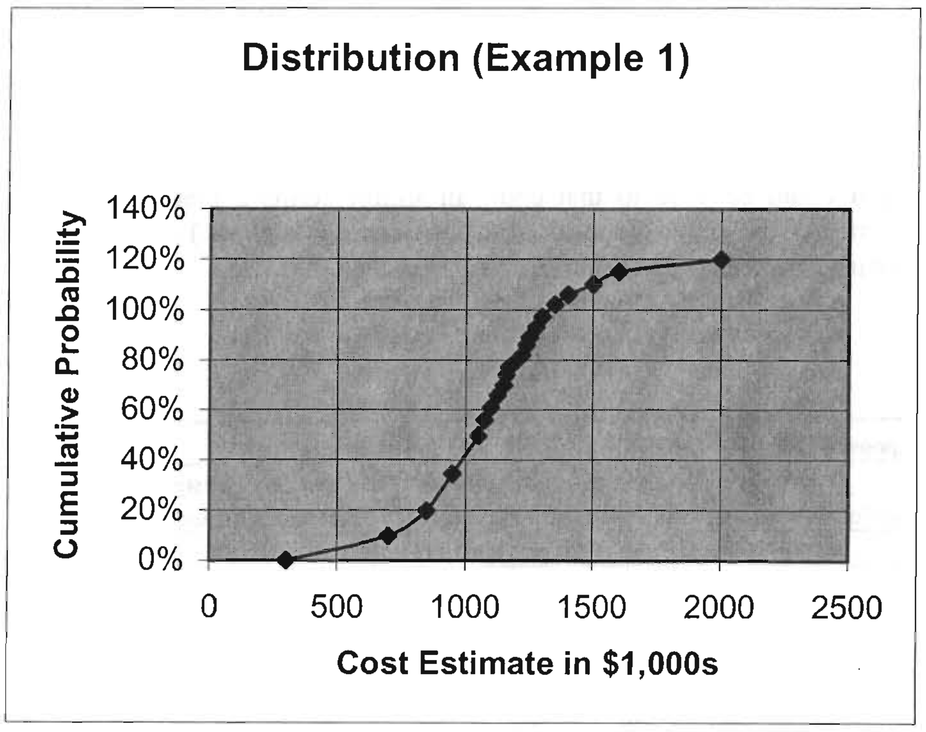
In estimating the total cost of a product or a program there are usually a few (or more) variables that determine this cost. Often, the variables that drive this cost have different levels of influence on the final cost. In order to identify the variables that have an inordinately large impact on the end result, so that these variables can be subjected to a much higher level of scrutiny, a technique called sensitivity analysis should be used. This is a common tool used in profit-oriented industry. Changing a single variable by a given percentage so that the effect of the variation on the final result is determined can identify these key variables. If the effect is large, the end result is sensitive to that variable.

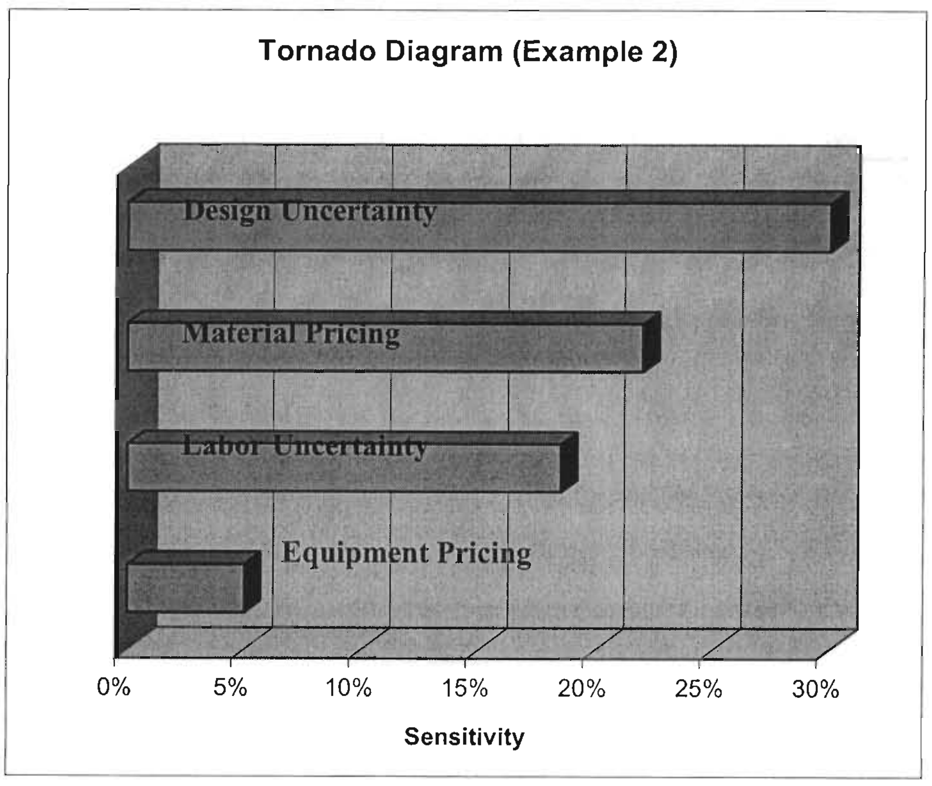
Along with sensitivity analysis, risk assessment is a tool that can identify critical cost components so that a more accurate picture of overall project or program financial risk can be determined. With this process it is possible to consider the impact of a limited number of plausible, variable combinations by the use of a method known as Monte Carlo simulation. The output of this technique can be shown as a range of possible costs based on the influence factors and the relative impact of these influence factors on the base cost. With that information, effective plans can be developed to mitigate the underlying risk.

For example, if a business had plans to build a new $1 million manufacturing facility, and the owners wanted to identify the cost components of the project that had the greatest financial uncertainty, risk assessment could be used to that end. In simple terms a matrix is created containing various cost components (e.g. equipment, bulk material, labor, etc.) and influence factors (e.g. equipment pricing, material pricing, labor uncertainty, etc.).

Cost Components		%	Influence Factors			
Description	Base Cost		Equip. Pricing	Material Pricing	Labor Uncertainty	Design Uncertainty
Equipment Costs	$ 200,000	-	5			0
		+	20			20
Bulk Material Costs	$ 300,000	-		5		15
		+		15		25
Labor Costs	$ 250,000	-		3	5	5
		+		10	20	0
Indirect Costs	$ 250,000	-		6	10	5
		+		12	20	5
Total Base Estimate	$1,000,000					

The impact of each influence factor on each component is estimated and included in the matrix. This information is used in a Monte Carlo simulation to identify the range of possible costs for the total project (Example 1) and the relative impact of each influence factor on the base estimate (Example 2) for the manufacturing facility.





With this information, the owners could create a strategy to minimize the effect of the large influence factors so as to reduce the chance of a project cost overrun. In the context of the state budgeting process, the use of risk assessment could have been instrumental in identifying the sizeable overrun potential in the new Prescription Drug Program or the 1992 Highway Plan so that steps could have been taken to avoid or minimize these consequences.

In order to reduce the chance of budget overruns, it is important to identify the underlying factors that drive project or program costs so that these factors can be more closely scrutinized during the appropriations process. Two techniques that can be employed to that end are sensitivity analysis and risk assessment. The panel recommends that these tools be incorporated in annual budget preparation process so that the accuracy of budgeted expenses will be improved and the likelihood of budget overruns be reduced.

C. Lack of Independence

One area of concern that needs to be addressed by the legislature involves lack of independence. The state of Missouri hires numerous outside consultants to provide advice and information to the state that it uses to set policy, determine direction, or reach a decision. There is an all too likely possibility that a consultant's work may be biased if future work with the state is dependent on the response given by the consultant.

To avoid this potential lack of independence, the state should require a complete disclosure by all consultants as to what work they are doing for the state. This information should be clearly identified with the work done by the consultant so that the end user knows who provided the information.

D. Management Has to Plan for the Future and Make the Hard Decisions

These recommendations are process recommendations. The recommendations do not focus upon setting the priorities for the state in terms of what are the most important programs for the state. These priorities need to be set by those elected by the people. The setting of the priorities needs to be done based upon a careful examination of demographics and with a forward-looking viewpoint. For example, if the population is aging, there may be changes in the needs of the citizens of the state (see page 22). The budget is a snapshot for a single fiscal year. However, this snapshot needs to be part of a longer-range plan.

This is the hardest part of the budgeting process. However, it is the most important part of the budgeting process.

The state, just like most individuals, does not have all of the money it would like to have. For example, let's say a person is building a new house, and the lighting allowance for their new house is $2,000. Regardless of whether they would like to have an $1,800 chandelier in their entry way, they simply cannot do that because they only have $2,000 to spend. Thus, the person must set priorities of how they will allocate the resources they have available.

The state must operate much the same way. There are a limited amount of resources available to

the state. The state needs to set a list of priorities from highest to lowest. There may be some projects that would be wonderful to have. For example, it might be a great goal that every state highway has a street light every 100 feet. However, it would be impossible to afford such a program. Thus, the state must make choices of what is most important and what it must do without.

The members of the General Assembly are uniquely equipped for this process. First, they are citizens themselves, so they have an understanding of what government should be doing. Second, as elected officials they are regularly in contact with their constituents and have a good understanding of those things that are needed in their communities. We cannot have everything. We must set priorities and address those essential government functions first and provide those additional benefits when the opportunities and revenues arise.

Also, for any budget improvements to have any lasting benefits, there must be a change in the attitude that "what can be saved one place can merely be spent somewhere else." Several legislators who spoke to the panel said that even when they had fought long and hard to cut waste or excess spending in government, their efforts were for naught, because the reduction or elimination of spending in one area was just spent on some other program. The legislators who spoke on this issue said this causes an attitude of "what's the point of trying?!" This attitude is not anything this panel can address. It is an approach to government that must be addressed by the managers of government (the governor and his administrative staff and the legislators). However, addressing this issue is critical to any budget reforms having any meaning.

PART II: SPECIFIC BUDGET RECOMMENDATIONS

Following are a few specific issues identified in regard to our review of Missouri's state budget. Please note that the panel had limited time in which to review the details surrounding these issues; therefore, it is recommended that the issues be presented to applicable state personnel for comment and confirmation.

I. Demographics

There is a concern that Missouri's future demographics are not being considered when significant budget appropriations and projects are approved. There are numerous studies relating to this area, all of which are providing correlated results.

A. Observations

- Based on various studies, Missouri is an "aging" state; school class sizes are expected to peak in 2004. *(most recent study/presentation – 2001 MSATA Conference, Hazel H. Reinhardt, Ph.D., Consultant)*
- The Chairman of the House Budget Committee, in addressing the panel, stated that "demographics" are not a consideration of the current budgeting system. This was a very disturbing comment.
- How does Missouri plan to attract a replenishment of workers in the future? Cutting "tax credits" appears to be an opposite approach.
- Is Missouri spending its money on the right projects taking into consideration that school class sizes are expected to peak during 2004 and aging population is expected to grow at a significant pace as baby boomers retire.
- What is Missouri's future? (retirement state or growing industry)

B. Recommendations

- Missouri should seek out and review existing demographic studies. A "state" focused study should be conducted if existing studies do not provide the necessary research.
- Missouri should appoint a "demographic" committee to focus on the direction of our future:
- Policy makers should ask: "In what direction are we headed?" and, "Is that the direction we want to pursue?"

If yes,

- Are we equipped to become a retirement state?
- Should increased tourism (i.e. golf communities, Branson, etc.) be considered?
- Can we support the budget requirements for an aging population?
- How will we handle the lack of qualified employees to staff current industry?

If no,

- How do we plan to attract and maintain qualified workers?

- How do we plan to attract new business (assuming they do their homework and see where we are headed)
- Taking care of aging remains an issue to address.
- The "demographic" committee should be consulted and provide input on all applicable budget requests.
- Consideration of demographic data should be a "requirement" for the approval of all budget requests. Are we building developments not needed? What are options to accommodate current needs without expending unnecessary funds?
- The impact to our future vision and demographics should be a consideration when decreasing budget allocations among various state departments (i.e. we may not want to reduce/eliminate selective tax credits if they allow the retention/attraction of qualified labor personnel and/or new industry).

II. Interest Paid on Tax Refunds

There is concern that the Department of Revenue is paying an excessive amount of interest on refund claims due to lack of timely processing relating to non-complex refund requests.

A. Observations

- The information provided and presented by the State Budget Director on August 27, 2001 referenced refund and interest calculations as follow:

Actual Refunds FY2000	$ 977 million
Actual Refunds FY2001	$ 981 million
Actual Interest FY2000	$ 22 million
Actual Refunds FY2001	$ 19 million

  Of the above amounts, approximately 60% of the refund amounts apply to "individual income tax overpayments." Only 5% of the interest amounts apply to the "individual income tax overpayments." 95% of the interest pay on claims applies to non-individual tax overpayments.
- The Department of Revenue has stated, during the spring of 2001, to various reliable sources that they could not process refund requests on the basis that they are "*out of funds for the fiscal year.*" The Department of Revenue responded that their employees should not have made comments of this nature. We have requested detail to support the number of claims processed during the spring in comparison to the remainder of the fiscal year. The Department provided sample monthly data. The data clearly reflected that the average monthly claim processing (700+) dropped during the spring period to an average of 100. The Department of Revenue has failed to date to provide a basis for the significant spring processing minimization.
- Many of the pending refund claims are non-controversial (i.e. merely require processing by the Department of Revenue). For example, the state of Missouri enacted an exemption for manufacturing replacement parts, effective 8/28/1998. The Director of Revenue did not

confirm the applicability of the exemption until 3/1999 (a letter was issued to taxpayers by the Department of Revenue "6 months" after the statutory change). This interim period created significant refund claims that require minimal review for completion. This is only one example of non-controversial claims that could be processed in a more expedient manner.

- The Department of Revenue has few, if any, auditors *dedicated* to processing refund requests.

B. Recommendations

- The Department of Revenue should consider dedicating experienced personnel to the refund processing effort. The cost associated to this recommendation would be minimal in comparison to the interest savings that could be achieved.
- The Department of Revenue should examine their refund process and streamline where applicable. Assigning "experienced" personnel to the process would be an immediate streamlining process.

III. State Property (Lease v. Buy Concept)

There is concern that various state agencies are not performing the applicable financial and savings analysis when making a determination as to "lease v. buy." This concept should apply to all personal property, motor vehicle, and real estate transactions.

A. One Sample Area for Immediate Consideration

State Vehicle Fleet

- Pursuant to the information made available by the Office of the State Auditor (Yellow Sheet– Sept. 25, 2001), approximately 30 percent of a random test analysis of fleet vehicles were utilized for less than 5,000 miles a year.

B. Recommendation

- All areas holding potential for "lease v. buy" savings should be analyzed.
- As for the state vehicle fleet test analysis, applicable state agencies should consider an "as-needed" vehicle leasing program through a third-party provider. Many large companies have implemented a program through a local leasing company, whereas, the vehicle leasing company either: 1) maintains an adequate level of vehicles at/on the company parking lot for as-need use, or 2) provides an on-demand delivery of vehicles. We view this as a significant potential cost-saving opportunity for underutilized vehicles, as well as, a tracking device to assure that personnel are not utilizing vehicles for unauthorized purposes.

IV. Unclaimed Property (Option to Forfeit Funds)

A. Potential for Increased Revenue and Efficiency

States are becoming more aggressive with their unclaimed property reporting requirements. As a result, more companies are complying on a regular basis. Reported property owner identification names are published by the State Treasurer's Office. Owners have the option to recover reported property by completing claimant forms and providing proper support.

As owners seek out their property, many owners (whether individual or corporate) are finding that the property reported is of minimal dollar value and not worth the pursuit from a feasibility standpoint. Many owners pursue the recovery process to the point of supporting their identification but elect not to complete the process upon notification of the dollar value.

B. Consideration(s)

- Can an owner elect to forfeit the unclaimed property to a general or other fund?
- Would legislation be required to allow this election?
- How would these forfeited funds impact the budget and/or special program funding requirements?

The amount (quantity and dollar value) of transactions that will never be pursued due to feasibility considerations will continue to grow as compliance and audit efforts increase. This consideration would provide a revenue generation mechanism, as well as, a tool to eliminate excessive unclaimed property listings.

IV. Tax Credits

The Missouri's current tax credit program is such that it is extremely difficult to budget for, and in reality, it is mostly guesswork. Without discussing the merits of specific credits, the central problem from a budgeting standpoint, is that the amounts of a particular credit granted can vary significantly from year to year, and the amounts of credit taken against taxes varies significantly from the total credit authorized.

A. Observations

- Missouri has fifty different types of tax credit programs statewide, and the Department of Economic Development administers approximately 31 of these. Many of the credits are designed to stimulate economic development and business investment. There are also numerous individual credits that are designed to advance public policy goals.
- The top three individual credits (Senior citizens/Disability Property Tax Credit; Pharmaceutical Tax Credit; and Historic Preservation Tax Credit) granted in FY 2000 totaled

$164 million. The total of all business or employer tax credits granted in FY 2000 was $119 million.

- Some tax credit programs have caps (either annual, cumulative, or per project); however, many of the credits do not have caps, and in some cases there is a significant increase in the amount of credit granted year to year. An example of this is The Historic Prevention Tax Credit. In FY 1999, $10 million in historic credits were granted. In FY 2000, $20.7 million were granted, and in FY 2001 $41.5 million were granted. The Department of Economic Development has stated in a tax credit report that they project granting $88 million of Historic Prevention tax credits in FY 2002. (The point being made is not to address the merits of that credit, but to question the enormous growth of the credit, and whether that was intended when the legislature enacted the credit.)
- The approval methods for the various credits vary between discretionary, competitive, first-come, and entitlement.
- The credits have inconsistent methods of use. Some are transferable while others have carry back or carry forward features, and still others simply expire.

B. Recommendations

- The legislature should review all the tax credit programs and keep those credits that either are achieving the desired economic development goals, or are fulfilling a stated public policy goal. In doing this, the legislature should have input from and review the studies by the Department of Economic Development. For example, in a Department of Economic Development Tax Credit Presentation to the Senate Appropriations Committee on January 29, 2001, it indicated that entrepreneurial tax credits (which consist of nine different credit programs) cost the state approximately $20 million. However, that resulted in $311 million of increased investment and $1.5 billion of increased sales.
- The total of all business/employer tax credits was approximately $119 million, but the private investment generated from those projects was $3.9 billion. The legislature needs to review the data and determine which credits are providing the desired economic development, business stimulus, or other stated public policy goals. It should then keep those credits and fund them at an appropriate level.
- Many of the credits do not have caps or limits. As noted above, the Historic Prevention Credit has doubled every year for the past three years ($10 million, $20.7 million, $41.5 million), and is projected to be $88 million for FY 2002. While many of these credits are undoubtedly of value, the legislature needs to determine what funding level they should have and cap the credit at that level. In short, all credits should have either an annual or a cumulative cap.
- The tax credits have many different approval methods (discretionary, competitive, first-come, and entitlement). While the nature of the various credits may require different approval methods, the idea of a discretionary method is troubling. The granting of credits at the discretion of the Director of the Department of Economic Development, regardless of who it is or from what political party, is untenable. The credits should have a set of defined requirements, and if met, you qualify for the credit. The credits are then granted until the cap is hit (first-come, or by some prorated method)
- All credits should be refundable and/or transferable. This will make budgeting for the state much easier. Once the legislature has decided what credits it desires and at what level of funding, it should then implement caps as noted above and make the credits transferable.

With these procedures in place, not only will the state of Missouri have the credit program it needs, but it will also know exactly how many credits will be granted and used in any given year.

V. Dedicated Sales Taxes

In 1976, the voters of Missouri passed a dedicated sales tax that funds the Missouri Conservation Department. In 1984, the voters passed a dedicated sales tax for parks and soil and water conservation for the Department of Natural Resources. This report is not intended to evaluate either the Conservation Department or the Department of Natural Resources' efforts. It is intended, however, to point out the problems a dedicated sales tax can create for budgeting.

A. Observations

- The voters of Missouri enacted the 1/8-cent dedicated sales tax for the Department of Conservation in 1976. Since that time it has raised over $1.32 billion.
- The number of Conservation Department employees has grown from 938 to 1,823 employees. Their budget has grown from $19.6 million to $142 million.
- For FY 2002, the Conservation Department has budgeted $390,000 for out-of-state travel. This represents a 20% increase over the prior year.
- Missouri ranks third nationally in total expenditures for conservation (only California and Florida spend more).
- The voters of Missouri enacted a 1/10-cent dedicated sales tax in 1984 for the Department of Natural Resources. This sales tax has a sunset provision and is set to expire in 2008.

B. Recommendations

- The Conservation Department's dedicated sales tax was put into place by the voters of Missouri 25 years ago, and it is time that the voters were presented with a second look at this method of funding the Conservation Department. The legislature should study what the Conservation Department and the Department of Natural Resources have done, and what they plan to do. They should then determine what an appropriate level of funding should be, and then support a constitutional amendment that would bring the Conservation Department and Department of Natural Resources within the regular legislative budgeting process.
- The Missouri legislature and the governor should make sure that voters understand the impact a dedicated sales tax has on the state budgeting process.
- It is not the purpose of this report to evaluate the Conservation Department or the Department of Natural Resources. Rather, we recommend that dedicated taxes should only be used in limited circumstances, and they should always contain a sunset provision. We understand that the voters of Missouri, through the initiative petition process, enacted these provisions. However, we believe that given the dramatic impact it can have on other departments, and the problems it creates in prioritizing the state's issues, both the governor and members of the legislature should actively pursue addressing the particular issues through the regular legislative process rather than supporting dedicated sales taxes.

VI. Federal Reimbursement Allowance Program

A. Background

An assessment on hospitals, called the Federal Reimbursement Allowance (FRA) program, generated, before the addition of a federal match, nearly $400 million for the state in FY 2001—revenue that is solely used to fund the state's Medicaid program. The state draws down an additional match of approximately 150 percent from the federal government. A similar assessment of nursing homes produces approximately $116 million before the federal match.

The FRA program is the third-largest source of the state's general revenue fund. It produces less revenue than the state's individual income tax and state sales tax, but more revenue than the corporate income tax and other tax sources.

Recently, the state received a harshly worded letter from the Centers for Medicare and Medicaid Services (CMS) administrator, Thomas A. Scully, challenging the FRA program and indicating he would seek a $1.6 billion repayment from the State of Missouri. That would represent eight years of federal money earned.

B. Outlook and Recommendation

There have been a number of rumors and concerns about the future of the FRA program, and now it appears likely that changes will, in fact, occur. Our Missouri congressional delegation has strongly opposed the CMS position, and at this time it is believed that most likely no reimbursement will be required. The program outcomes are universally recognized as important; however, a program evolution likely may be necessary.

It is possible that a federal pilot project built around Missouri will be developed that will establish a baseline on all related Medicaid federal funds. This is, however, expected to result in a more predictable model and likely would re-compute how the state and the federal match will work. Whatever changes finally occur, it will be imperative that appropriate safeguards are in place to protect the "safety net" programs.

There is the potential that the outcome will be positive, assuring Missouri an adequate federal funds base for future years. At the same time, it will be prudent to carefully watch the process and support the interest of Missouri's citizens.

VII. Cellular Telephone Costs

A. Observations

In September 2001, the state auditor issued a comprehensive report on cellular telephone costs with the following findings:

- $2.5 million was spent on cellular telephone costs in FY 2000.
- Better monitoring of state employee cellular phone use could reduce costs.
- Employee cellular phone plans are not optimally matched to estimated use, resulting in some cases in paying double what would have been paid under the proper plan. Minutes used beyond the plan are charged at much higher rates than if the plan had been upgraded. Responsible organization personnel told the state auditor that they monitored usage from one to four times per year. The audit revealed, however, that five of the seven departments reviewed made no changes to any of the cellular phone plans for the 12–month period analyzed.
- One department did not know who used cellular phones and paid $1,751 in FY 2000 for phones that were never used.
- Telephone billing errors go unquestioned.
- There is no assurance that personal calls are reimbursed by employees. There are not uniform procedures in place across departments for sending cellular phone invoices to employees and requiring them to identify personal calls.
- Department officials were not aware of how many different telephone vendors are being used. One agency paid up to 18 different vendors in one year.

B. Recommendations

Based on our review, it appears that there is the opportunity to potentially reduce state expenditures in this area by an amount we estimate to be up to 20-30 percent, or $500,000-750,000. To achieve this, in addition to implementing the recommendations included in Report No. 2001-85 (dated September 17, 2001), the state should consider the following recommendations that many companies have successfully implemented to reduce cellular telephone costs:

- Require all employees to use only plans offered by 23 approved vendors based on statewide-negotiated rates.
- Require employees using cellular phones to review their usage on a quarterly basis and assess whether their current plan should be upgraded or reduced to minimize billing charges.
- Require employees, versus the state, to own the contract and submit expense reimbursement for business use.
- Establish maximum reimbursement caps.
- In connection with issuing instructions for the next budget process, require all departments to budget cellular phone costs at 75 percent of prior year actual costs.

VIII. Air Travel and Meal Reimbursements

A. Observations

In September 2001, the state auditor issued a comprehensive report, which concluded that approximately $3 million could be saved with changes in air travel and meal reimbursement policies and procedures. Findings included:

- Contracts with airlines are key to cutting costs in half.
- Unlike the federal government and three states contiguous to Missouri, our state allows employees to keep frequent flyer miles for personal use rather than require them to use these mileage awards to reduce future state travel costs.
- Departments set their own limits for meal reimbursements, which range from $14 per day to up to $72 per day. Uniform consistent limits should be set to improve fairness and efficiency and eliminate redundant costs. Currently, five departments pay for the same expensive meal guide subscription (up to $950 annually) to help set price limits for particular cities.
- Lunches are reimbursed without requiring overnight travel, costing the state $1.8 million. The federal government and seven states contiguous to Missouri do not commonly follow this practice.

B. Recommendation

Based on our review, we agree with the state auditor that $3 million in savings could potentially be achieved by implementing the recommendations included in Report No. 2001-95 (dated September 25, 2001). The state should also consider the following recommendation, which many companies have successfully implemented to reduce travel, and meal reimbursement costs:

- Missouri should set a statewide goal to reduce these costs to 50 percent of prior year actual costs. The state should require all travel to be personally approved by the head of the department and instruct the department head to only approve trips that are absolutely essential. This savings should be reflected in the budget requests for the upcoming budget cycle. To achieve this ambitious goal of reducing travel and meal reimbursement costs by 50 percent, clearly fewer trips would be allowed. This is something most companies have implemented. Conference calls are more frequently replacing expensive in-person meetings, and where attendance is important, at conferences for example, fewer individuals are being allowed to attend.

PART III: STATE DEPARTMENT INVENTORIES—ILLUSTRATING THE NEED FOR BUDGET REFORM

The panel requested equipment inventory lists from each state department in order to assess how state agencies have been allocating their budgets with regard to the equipment they purchase. These inventory lists include all equipment purchased by the department with a value of at least $1000. These lists, some of which were submitted on compact disc, form a stack roughly four feet high. Because of the tremendous volume of the lists and the limited time frame the Panel was given, only two agency inventories were reviewed, the Department of Revenue and the Public Service Commission within the Department of Economic Development; but in each of these two agency inventories, serious concerns were uncovered. These concerns and the panel's recommendations are included below:

I. Department of Economic Development—Public Service Commission

A. A Word About PSC Funding

The Public Service Commission division of the Department of Economic Development is funded by a direct assessment levied on utility companies that is equal to the cost of operating the division (see Section 386.370, RSMo). For some utility companies, the cost of the assessment is passed on to the consumer and for other utilities the assessment is a direct cost of doing business. In any case, efficiency in the use of this funding system should produce an equitable method of funding the regulation of the utility industry. Excessive expenditures result in increased costs to the utility companies and to all utility customers, affecting both business and individual consumers. Utility costs of businesses are reflected in the costs that are factored into the price charged for goods – the higher the costs of doing business, the more a business must charge to make the same amount of profit.

B. Specific Inventory Items

1. Computer Equipment

The PSC has 20 LAN (Local Area Network) switches with 48 ports each, purchased at a cost of $3,321 each, for a total cost of $66,420. These switches would accommodate 960 personal computers on a network. The PSC has less than 200 employees, according to the Official Manual of the State of Missouri 2001-2002, meaning these switches would accommodate more than 4 personal computers for every PSC employee.

The PSC has invested over $1 million in 457 portable and desktop computers for fewer than 200 employees. The PSC has 335 computer monitors and only 312 desktop computers. The amount spent on personal computers, monitors and network equipment is in excess of **$9,000 per employee.**

Total cost of computers, monitors, palm organizers and network equipment is $1,858,283:

Network Equipment	**$834,731**
145 Portable Computers	**$393,842**
312 Desktop Computers	**$451,144**
335 Monitors	**$172,697**
14 Palm Organizers	**$ 5,869**

Network Equipment:	*Price X Quantity*		*Subtotal*
Dell PowerVault	$153,601 X 1	=	$153,601
Dell PowerEdge 2450 Processor	$ 41,815 X 1	=	$ 41,815
Dell PowerEdge Server/Rack	$ 82,042 X 1	=	$ 82,042
Dell PowerEdge 4400 Base	$ 30,559 X 1	=	$ 30,559
Dell PowerEdge 4400	$ 10,681 X 1	=	$ 10,681
Dell PowerVault	$ 15,967 X 1	=	$ 15,967
Dell PowerEdge 6100 Base	$ 13,976 X 1	=	$ 13,976
Pro1000 Ethernet Network Cards	$ 12,072 X 1	=	$ 12,072
Cisco Catalyst 3548 XL switches	$ 3,322 X 20	=	$ 66,440
Cisco Catalyst 6509	$ 97,438 X 1	=	$ 97,438
Cisco 2621 Ethernet Router	$ 4,585 X 1	=	$ 4,585
Disczerver VT28 ETH FETH	$ 1,786 X 1	=	$ 1,786
Cisco 3600 Router	$ 1,929 X 1	=	$ 1,929
Cisco 3600 Router	$ 8,348 X 1	=	$ 8,348
Dell PowerVault 630F	$ 14,324 X 1	=	$ 14,324
Madge Smart CAU Plus	$ 1,998 X 1	=	$ 1,998
Synoptics Token Ring Host	$ 4,565 X 5	=	$ 22,825
Synoptics 5505P	$ 4,565 X 1	=	$ 4,565
Synoptics Token Ring Dual Cluster	$ 4,565 X 1	=	$ 4,565
Synoptics 5510-06 Token Rg MMM	$ 6,849 X 1	=	$ 6,849
Synoptics Superhub Chassis	$ 28,556 X 1	=	$ 28,556
Fibrotic Hub	$ 4,565 X 2	=	$ 9,130
Hub	$ 1,749 X 7	=	$ 12,243
CD Tower 7 Bay	$ 4,000 X 1	=	$ 4,000
Surestore External Tape Drive	$ 1,620 X 1	=	$ 1,620
Fast SCSI Hard Drive 2.25GB	$ 1,190 X 2	=	$ 2,380
Comspere 3610 DSU	$ 875 X 2	=	$ 1,750
Modular ICS Plus w/Pwr Supp	$ 15,211 X 1	=	$ 15,211
HP Surestore Tape Drive	$ 2,790 X 1	=	$ 2,790
Surestore Tape Drive, DLT	$ 5,635 X 1	=	$ 5,635
DSU/CSU Motorola Modem	$ 748 X 2	=	$ 1,496
DSU/CSU Motorola Modem	$ 707 X 2	=	$ 1,414
Token Ring Transceiver	$ 391 X 3	=	$ 1,173
Cisco Router	$ 2,791 X 3	=	$ 8,373
Cisco 2500 Router	$ 3,189 X 1	=	$ 3,189
Dell PowerEdge 6300	$ 24,487 X 1	=	$ 24,487
Dell PowerEdge 6300 Server	$ 26,970 X 1	=	$ 26,970
LanRover E XP16	$ 5,192 X 1	=	$ 5,192
Hub-3 Com 12 Ethernet	$ 136 X 1	=	$ 136

CD Rom Tower	$ 2,358 X 1	=	$ 2,358
TSU100 T1/FT1 CSU/DSU	$ 1,898 X 1	=	$ 1,898
Motorola FT 100 DSU	$ 900 X 4	=	$ 3,600
Uninterruptible Power Supply	$ 181 X 10	=	$ 1,810
Marknet X2031E 10/100BT 3 Port	$ 302 X 35	=	$ 10,570
T1-DSU 2-Channel 2XV.35 RJ45	$ 1,447 X 1	=	$ 1,447
Smart Uninterruptible Power Supp	$ 625 X 1	=	$ 625
Uninterruptible Power Supply	$ 599 X 3	=	$ 1,797
Bay Access Node Router	$ 3,750 X 1	=	$ 3,750
Smart Hub 16 Port	$ 3,650 X 1	=	$ 3,650
Kodak 3590C Color Scanner	$ 25,558 X 2	=	$ 51,116
TOTAL			**$834,731**

145Portable Computers:	***Price X Quantity***		***Subtotal***
Dell Inspiron 5000E	$2,396 X 10	=	$23,960
Dell Inspiron 5000E	$2,239 X 25	=	$55,975
Dell Inspiron Laptop	$4,564 X 1	=	$ 4,564
Dell Inspiron 8000	$3,692 X 3	=	$11,076
IBM ThinkPad 720	$2,855 X 5	=	$14,275
IBM ThinkPad	$9,168 X 2	=	$18,336
IBM ThinkPad 360C	$2,990 X 4	=	$11,960
IBM Notebook	$2,356 X 1	=	$ 2,356
IBM ThinkPad 560	$2,692 X 2	=	$ 5,384
IBM Notebook	$2,327 X 1	=	$ 2,327
IBM ThinkPad 760C	$4,695 X 1	=	$ 4,695
Toshiba 510 CDT Laptop	$3,498 X 1	=	$ 3,498
IBM Notebook	$2,234 X 2	=	$ 4,468
IBM ThinkPad 760XD	$4,767 X 1	=	$ 4,767
IBM ThinkPad 760XL	$2,143 X 10	=	$21,430
IBM ThinkPad 760XL	$2,279 X 10	=	$22,790
IBM ThinkPad 760XL	$2,484 X 6	=	$14,904
IBM ThinkPad 760XL	$2,318 X 11	=	$25,498
IBM ThinkPad 760XL	$2,429 X 4	=	$ 9,716
Gateway Solo 9100LS Notebook	$5,014 X 1	=	$ 5,014
Gateway Solo 9100 LS Notebook	$4,343 X 1	=	$ 4,343
Gateway Solo 9100 SE Notebook	$3,364 X 1	=	$ 3,364
Dell P233 Notebook	$2,538 X 11	=	$27,918
Dell Inspiron 7000 Notebook	$3,607 X 1	=	$ 3,607
Dell Inspiron 7500 Notebook	$4,165 X 1	=	$ 4,165
Dell Inspiron 7000 Notebook	$3,199 X 1	=	$ 3,199
Dell Inspiron 7000 Notebook	$3,665 X 2	=	$ 7,330
Dell Inspiron 3500 366GT Pentium	$2,814 X 12	=	$33,768
Dell Inspiron 3500 366GT Pentium	$2,753 X 12	=	$33,036
Toshiba Tecra 8100	$2,733 X 1	=	$ 2,733

SuperSport SX W/2M	$3,386 X 1	=	$ 3,386
TOTAL	**145**		**$393,842**

312 Desktop Computers:	*Price X Quantity*		*Subtotal*
Dell 733 Mhz/133 Mini Tower	$1,401 X 70	=	$ 98,070
Dell 700 Celeron	$ 716 X 10	=	$ 7,160
Dell GX400 Mini Tower	$1,882 X 2	=	$ 3,764
Summit Pentium PC	$2,360 X 1	=	$ 2,360
Memorex Telex Base System	$2,666 X 1	=	$ 2,666
IBM 350 Personal Computer	$1,974 X 1	=	$ 1,974
IBM 350 Personal Computer	$2,389 X 1	=	$ 2,389
IBM 350 Personal Computer	$2,812 X 2	=	$ 5,624
Desktop Computers (Continued)			
IBM 350 Personal Computer	$1,688 X 4	=	$ 6,752
IBM 350 Personal Computer	$1,660 X 1	=	$ 1,660
Dell Personal Computer	$1,435 X 82	=	$117,670
Dell Personal Computer	$1,659 X 21	=	$ 34,839
Dell Personal Computer	$1,959 X 1	=	$ 1,949
Dell P6400 Personal Computer	$1,810 X 1	=	$ 1,810
Dell P11 6400 Personal Computer	$2,149 X 3	=	$ 6,447
Dell GX1/MT+ Personal Computer	$1,413 X 50	=	$ 70,650
Dell GX1/MT+ Personal Computer	$1,412 X 33	=	$ 46,596
Dell GX110 Personal Computer	$1,289 X 20	=	$ 25,780
Dell GX110 Personal Computer	$1,623 X 8	=	$ 12,984
TOTAL	**312**		**$451,144**

335 Monitors:	*Price X Quantity*		*Subtotal*
Dell P1110FD Trinitron Monitor	$ 300 X 70	=	$21,000
IBM PS/2 Color Display	$ 483 X 1	=	$ 483
Multisync 5FG SVGA Color Mon	$1,329 X 1	=	$ 1,329
IBM Color Monitor	$ 410 X 5	=	$ 2,050
IBM 15" C1201 Monitor	$ 579 X 11	=	$ 6,369
NEC-2143 21" Color Monitor	$2,490 X 2	=	$ 4,980
NEC 17" Color Monitor XE-17	$ 989 X 5	=	$ 4,945
NEC 17" Color Monitor XE-17	$ 999 X 2	=	$ 1,998
IBM 17" Color Monitor	$1,166 X 3	=	$ 3,498
IBM G70 17" Color Monitor	$ 741 X 15	=	$11,115
IBM G70 17" Color Monitor	$ 713 X 2	=	$ 1,426
IBM G70 17" Color Monitor	$ 688 X 1	=	$ 688
IBM G70 17" Color Monitor	$ 665 X 15	=	$ 9,975
IBM P200 20" Color Monitor	$1,691 X 1	=	$ 1,691
Dell 1000LS Color Monitor	$ 300 X 110	=	$33,000
Magnavox 17" Monitor	$ 353 X 4	=	$ 1,412
Phillips Magnavox 17" Monitor	$ 341 X 1	=	$ 341
Memorex Telex Color Monitor	$ 355 X 1	=	$ 355

Dell 21" Monitor	$ 793 X 70	=	$55,510
Dell 21" Monitor	$ 908 X 4	=	$ 3,632
Dell 21" Monitor	$ 850 X 1	=	$ 850
Optiquest Q115 21" Color Monitor	$ 605 X 10	=	$ 6,050
TOTAL	**335**		**$172,697**

14 Palm Organizers:	*Price X Quantity*		*Subtotal*
Palm Organizer	$ 538 X 1	=	$ 538
Palm Organizer	$ 425 X 1	=	$ 425
Palm Organizer	$ 350 X 2	=	$ 700
Compaq Handheld PC	$ 562 X 1	=	$ 562
Palm Organizer	$ 381 X 8	=	$ 3,048
Palm Organizer	$ 596 X 1	=	$ 596
TOTAL	**14**		**$ 5,869**

Recommendation:
The necessity for this much computing power should be justified—expenditures of over $9,000 per employee appear to be excessive. A reduction in the amount spent by the PSC directly results in lower cost of utilities to individual and business customers.

2. Sound Systems

The Public Service Commission has two sound systems on their inventory list. One sound system is listed at a cost of $24,943 with no specific designation of use in the item description. Another sound system, listed at a cost of $18,750, is designated "sound system for hearing room." Also, a Fender Passport 250 Sound System is listed at a cost of $1,036 and a spectrum analyzer/noise test set at a cost of $3,711. **Total cost of sound systems: $48,440.**

Recommendation:
A review of the cost versus the benefit of purchases of this nature should be performed by the agency prior to making such purchases. Did the PSC need two sound systems to effectively perform their official mission? Could the test equipment have been rented at less cost?

3. Plasma Display Units

The PSC purchased two Fujitsu 42" plasma displays at a cost of $6,470 each. **Total cost of plasma displays: $12,940.**

> ***Recommendation:***
> **A review of the cost versus the benefit of purchases of this nature should be performed by the agency prior to making such purchases. Did the PSC need two plasma displays to effectively perform their official mission?**

4. Interactive Whiteboards, Printing Dry-Erase Board, and Video Conferencing Units

The PSC purchased two SMARTBoard interactive whiteboards at a cost of $2,023 and $1,643 respectively. These boards, similar to a grease board in appearance, may be used as a grease board and the output printed to paper or a computer file and may also be used as a controller for a computer, providing interactive display capabilities (select an item that is on the display and the computer responds). The PSC also purchased a printing dry-erase board at a cost of $1,999.

Four video conferencing units were purchased at a total cost of $60,904.

Total cost of equipment in this category: $66,569.

> ***Recommendation:***
> **A review of the cost versus the benefit of purchases of this nature should be performed by the agency prior to making such purchases. Did the PSC need all of this equipment to effectively perform their official mission? Could the equipment have been rented at less cost to the state, or was there a need to purchase the equipment?**

5. LCD Projectors

PSC shows three LCD projectors on hand at a total original cost of $18,570. This equipment acts as an overhead projector for personal computers. Replacement bulbs for the projectors cost between $350 and $600 apiece.

Total cost of the three LCD projectors: $18,570.

Recommendation:
High priced equipment should be purchased conservatively. The costs and benefits of such purchases should be carefully weighed and it should be determined if these purchases were essential to the accomplishment of the Public Service Commission's mission.

II. Department of Revenue

A. Mail Inserter Equipment

The Department of Revenue purchased two BH-3000 mail inserter machines at a cost of $273,124 each in October 2000, and a high capacity feeder/folder accessory for the machines at a cost of $61,800. **Total cost: FY 2001 - $608,048.**

The department already owned two similar machines: one purchased in April, 1995, at a cost of $218,154 and another purchased in March, 1996, at a cost of $275,056. These were not shown as surplus or traded on the inventory list for May-June 2000.

Recommendation:
A cursory review of the FY 2001 budget request for the Department of Revenue does not reveal a specific budget request for these machines. Because purchases of such magnitude have an effect on the growth in state spending overall, a separate budget request should be made to ensure legislators and others reviewing the budget are able to properly analyze the benefit of such purchases relative to the costs incurred.

B. LCD Projectors

DOR shows 12 LCD projectors on hand at a total original cost of $56,721. Ten of these projectors were purchased in FY 2000 at a total cost of $48,386. Also purchased one in FY 1996 and one in FY 2001. This equipment acts as an overhead projector for personal computers. Replacement bulbs for the projectors cost between $350 and $600 apiece.

DOR also has an older style overhead projector that is capable of projecting LCD screens through the use of special LCD aperture. The unit was purchased in June 1992, at a cost of $4,602. Although it is not included on the list below, this is noted because the cost of the item at the time was significant.

Purchase dates, quantities and amounts follow:

Date	**Quantity**	**Price**	**Fiscal Year Subtotal**
October 1996	1	$ 4,425	$ 4,425
April 1999	1	$ 6,645	
February 2000	1	$ 3,671	
March 2000	1	$ 5,180	
May 2000	2	$ 4,674	
	1	$ 4,846	
June 2000	4	$ 4,674	$48,386
April 2001	1	$ 3,910	$ 3,910
TOTAL	**12**		**$56,721**

Recommendation:
High priced equipment should be purchased conservatively and shared between different members of the same agency, whenever possible. It is highly unlikely that any department would need 12 of these LCD projectors at any one point in time. Savings to the state would result from the sharing of these resources.

Nine of these LCD projectors were purchased in the latter half of fiscal year 2000. The timing of such purchases may indicate a spending of resources allocated to the department in order to preserve the core budget for the following year. This could be an example of a very common practice in the current budget process and emphasizes the need to fundamentally change the core budget approval process.

C. Printing Grease Boards

These items are simply grease pen boards that provide a paper copy of the writing on the board. This alleviates the need for someone in a meeting to copy on paper the items on the grease board before erasing. DOR has a total of 10 printing grease boards: 3 purchased in FY 96 at a total cost of $3,625; 1 purchased in FY 97 at a cost of $1,794; 5 purchased in FY 00 at a total cost of $6,757; and 1 purchased in FY 01 at a cost of $1,541. Purchase dates, quantities and amounts follow:

Date	Quantity	Price	Fiscal Year Subtotal
March 1996	1	$ 1,125	
June 1996	2	$ 1,250	$ 3,625
September 1996	1	$ 1,794	$ 1,794
February 2000	2	$ 1,359	
June 2000	1	$ 1,649	
	2	$ 1,195	$ 6,757
September 2000	1	$ 1,541	$ 1,541
TOTAL	**10**		**$13,717**

Recommendation:

A review of the cost versus the benefit of purchases of this nature should be performed by the agency prior to making such purchases. In this case, there appears to be no efficiency created to the state, no enhancement of services to customers (taxpayers), and very little benefit to the employees of the department as a result of the purchase. Little time is required to manually transcribe the information on the grease boards into a written document that may be saved or distributed.

If determined to be necessary, high priced equipment should be purchased conservatively and shared between different members of the same agency, whenever possible. It is highly unlikely that any department would need 10 of these printing grease boards at any one point in time. Savings to the state would result from the sharing of these resources.

Seven of these printing grease boards were purchased in the latter half of fiscal years 1996 and 2000. The timing of such purchases may indicate a spending of resources allocated to the department in order to preserve the core budget for the following year. This could be an example of a very common practice in the current budget process and emphasizes the need to fundamentally change the core budget approval process.

D. Criminal Investigation Bureau (CIB) Equipment

Some items on the list that were purchased for the use of the Criminal Investigation Bureau are worthy of attention.

For example, the CIB purchased a polygraph machine in September 1990, at a cost of $2,908. Also, a monocular night vision scope was purchased in April 1993, at a cost of $5,295. A number of binoculars, cameras, pieces of video equipment, etc., were also purchased for the use of the CIB.

> ***Recommendation:***
> **While the Criminal Investigation Bureau is responsible for "building the case" against tax evaders, internal investigations of improper practices by department employees, and investigation of fraudulent motor vehicle transactions, attention should be given to the cost-effectiveness of these items (i.e. the number of times the polygraph machine and night vision scope were used in a successful recovery of dollars due the state or in a successful prosecution of fraudulent activity). The necessity of binoculars should also be closely reviewed using the same criteria.**
>
> **The night vision scope was purchased late in fiscal year 1993. The timing of the purchase may indicate a spending of resources allocated to the department in order to preserve the core budget for the following year. This could be an example of a very common practice in the current budget process and emphasizes the need to fundamentally change the core budget approval process.**

CONCLUSIONS

The members of the panel are all honored to be asked to provide their input. Citizen involvement in government is essential to the success of our state. Each panel member has expertise in accounting, budgeting, financing or general business. Drawing upon this expertise is beneficial to the state and to the community as a whole. The state gets the benefit of expertise without cost, and the community as a whole ends up with more citizens involved in the process of government and, therefore, a more informed public. The participants on the panel receive a benefit as well. They receive the opportunity to use their expertise to improve government.

There are two passing thoughts that need to be considered:

First, there is a debate over whether government should be "run like a business." The panel believes that running the government like a business is not only appropriate, but necessary. The business of government is not exactly like a business, but it has many similarities. The customers of a business are the citizens in general or the beneficiaries of a specific program. The taxpayers have a dual role in government of being customers of government at some times (e.g., when they drive on roads) and shareholders (investors) in government at other times (e.g., when they pay taxes to support programs for which they do not receive a direct benefit, but which the state is operating for the benefit of specific citizens and thereby providing for the general welfare of the entire community). Government is not to be operated with a profit motive. However, the operations of government need to be handled in manner similar to a private business with the exception of the profit motive. The managers of government need to provide good service to the customers (the taxpayers in general and the beneficiaries of specific programs) and a reasonable return to the investors (the taxpayers).

Second, for any budget improvements to have any lasting benefits, there must be a change in the attitude that "what can be saved one place can merely be spent somewhere else." Several legislators who spoke to the panel said that even when they had fought long and hard to cut waste or excess spending in government, their efforts were for naught. The reduction or elimination of spending in one area was just spent on some other program. The legislators who spoke on this issue said this causes an attitude of "what's the point of trying!" This attitude is not anything this panel can address. It is an approach to government that must be addressed by the managers of government (the governor and his administrative staff and legislators). However, addressing this issue is critical to any budget reforms having any meaning.

As mentioned in the introduction, our review has certain limitations. The budgeting process is so monumental that substantially more time and analysis would be required to provide a more extensive report. Hopefully this report will have its intended result of serving as a starting point to stimulate debate and further investigation of the opportunities that may exist to improve the budget process.

APPENDIX

Budget Panel Members

Greg Atkinson

Greg Atkinson is State and Local Tax Counsel for Monsanto Company in St. Louis, Missouri. He has a B.A. in Political Science from St. Michael's College; a J.D. from California Western School of Law; and an LL.M. in Taxation from Boston University School of Law. Greg is a member of the Missouri and Connecticut Bar Associations, and is a member of the American Bar Association (Tax Section member). Greg is also a member of the Missouri Chamber of Commerce Board of Directors, and serves as Chairman of the Missouri Chamber of Commerce Tax Council.

Philip Brumbaugh

Philip G. Brumbaugh is licensed to practice as a certified public accountant. He has an MBA from St. Louis University and an accounting degree from Washburn University. He is a member of the American Institute of CPA's, the Missouri Society of CPA's, and the National Association of Certified Valuation Analysts. He has published articles on small business management and tax planning, appeared on a television broadcast regarding start-up basics for small business, and provided financial and computer software seminars to various sized groups of individuals. He serves on the advisory board of Allegiant Bank, and he is periodically an adjunct instructor in the MBA program at Lindenwood University.

Christine Cudney

Christine Cudney is the Director of Tax Planning and Research for Ameren Corporation. Prior to joining Ameren, Chriss directed and managed public accounting state and local tax functions, served as a Revenue Agent in the states of Missouri and Colorado, and served as Administrative Assistant for Missouri Senator Ralph Uthlaut. She received a Masters in Business Administration from Webster University and a Bachelor of Science in Accounting from Missouri Southern State College. Her professional associations are or have been with the Missouri Director of Revenue's Advisory Group, Associated Industries of Missouri Tax Committee and Board of Directors, Institute of Property Taxation, Association of Municipal Tax Auditors, Association of MBA Executives, Sales Tax Institute, the AICPA, and the MSCPA. Her publications include the *Journal of Multistate Taxation* and *State Tax Notes*.

Elmer Evers

Elmer "Sonny" Evers is the managing partner for the offices of Evers and Company. Elmer started the firm in 1974 and has a total of thirty years public accounting experience. He holds a

Bachelor of Science degree in Accountancy from Lincoln University and a Master of Arts degree in Accountancy from the University of Missouri. He is a member of the Missouri Society of Certified Public Accountants, the American Institute of Certified Public Accountants, the National Association of Certified Fraud Examiners, the Association of Government Accountants as a Certified Government Financial Manager, the Institute of Internal Auditors, the Missouri Municipal League and the Missouri Independent Bankers Association.

Allen Icet

Allen Icet holds the position of Principal Engineer in the Ag-Engineering Group of Monsanto. He has an engineering degree from Texas A&M University and an MBA from Washington University. His professional experience includes positions in finance, accounting, purchasing and engineering. Within these functions he has an extensive background in the areas of budgeting, planning and business forecasting. Allen served on the Rockwood School District Board of Education. During his term in office he was elected as President of the Board for the 1995-1996 school year. During the previous decade Rockwood was the fastest growing district in Missouri and is one of the largest districts in the state with over 20,000 students.

John Koffman

John Koffman is a certified public accountant practicing in Moberly. He received a bachelor's degree in secondary education from Northwest Missouri State University and is a member of the Missouri Society of CPA's and the American Institute of CPA's. He served on the Missouri Coordinative Board for Higher Education from 1984 to 1990 and was Board Chairman from 1989 to 1990. He has been awarded the Distinguished Alumni Award from Northwest Missouri State University and Distinguished Service Awards from the Missouri Society of CPA's and the Moberly Area Chamber of Commerce.

Ray McCarty

Ray McCarty is the Director of Fiscal Affairs for the Missouri Chamber of Commerce. McCarty represents the Missouri Chamber before the Missouri General Assembly and state agencies in all matters affecting taxation, general state budget and fiscal issues, utility restructuring and transportation.

Prior to joining the Missouri Chamber in 1998, McCarty was employed for 16 years by the Missouri Department of Revenue, where he ultimately served as the department's chief legislative liaison. He has 20 years of experience in business tax law, tax legislation and government relations.

In January 2001, Ray authored the Missouri Chamber of Commerce "2001 Study of Missouri State Government Spending". The fact-based study provides a compilation of state budget data that had not been presented in one document prior to its release, and has proven to be a valuable

resource for legislators and taxpayers that are interested in controlling the growth of government in Missouri.

John McGowan

John McGowan is Professor and Chairman of the Accounting Department at St. Louis University. He received his Masters of Accountancy and Ph.D. in Economics and Taxation from Southern Illinois University at Carbondale. He has served as a tax consultant to many corporations and has served the City of Crestwood as an Alderman and as Chairman of the City Board of Adjustment. Dr. McGowan has published extensively on tax policy, international tax, and international accounting.

Nancy Pechloff

Nancy Pechloff is a CPA and partner with Arthur Andersen LLP. Nancy has 28 years of experience with Andersen in the Audit and Business Advisory Practice. Nancy is past President and Board member of the Missouri State Board of Accountancy, which regulates all licensed CPAs in the state of Missouri. She received the Accountant Advocate Award for the State of Missouri in 1988 and for the State of Illinois in 1986, presented by the Small Business Administration. Nancy is active in a number of business and civic organizations in Missouri. She currently serves on the boards of the National MS Society, Mentor S. Louis and the Center for Emerging Technology. Nancy previously served on the boards of the St. Louis Chapter of the National Association of Women Business Owners, the Children's Home Society of Missouri, Girls, Inc. and the Visiting Nurse Association (VNA). In addition, Nancy is a member of the AICPA, Missouri Society of CPAs and the St. Louis Forum.

Gavin Poppen

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Barry Seward

Barry Seward is senior vice president of Health Midwest and chairman of the Missouri Transportation and Development Council (MTD). He served on the Governor's Total Transportation Commission, and was moderator for the Governor's first Total Transportation Conference. Mr. Seward is vice chairman of Associated Industries of Missouri (AIM) and a member of the executive committee of the board. He is a past chairman of the Missouri State

Affairs Committee of the Greater Kansas City Chamber of Commerce and a past chairman of the Chamber's Federal Affairs Committee and serves on the government affairs committee of the Labor-Management Council of Greater Kansas City.

In all, Mr. Seward was appointed by three governors to eight boards and commissions, three of which he chaired. He served on commissions for two Kansas City mayors and was an alderman and Mayor *pro tem* for the City of Raytown. He serves on several Missouri Hospital Association task forces and on the Board of a number of other organizations. He previously served two terms as chairman of the board of John Knox Village, a retirement community in Lee's Summit.

Mr. Seward holds a BA from the University of Missouri at Kansas City and a MA from Webster University, Kansas City.

James Thomas

James C. Thomas III is a tax, business and estate planning lawyer with the firm of Watkins, Boulware, Lucas, Miner, Murphy & Taylor in Kansas City. He graduated magna cum laude from William Jewell College with a degree in accounting and with distinction from the University of Missouri-Kansas City School of Law. Mr. Thomas also holds an LLM in Taxation from the University of Missouri-Kansas City School of Law, where he was the recipient of the Arthur Mag Fellowship and served as business editor of the *UMKC Law Review.*

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